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THE GLOBAL DERIVATIVES MAGAZINE

You think moving house is hard? Try relocating a whole exchange, says Holly Duran

In the search for office space, don't make a bad trade

After more than 25 years representing CME Group and many other futures-related and financial services companies in their real estate negotiations, one thing is eminently clear: Priorities have changed dramatically. While infrastructure needs may dictate real estate decisions in a variety of industries, virtually nowhere are they more important than in this industry where every millisecond counts, and inadequate infrastructure can bring a company to its knees.

I've witnessed firsthand how the real estate needs of those in the derivatives industry have evolved significantly in the past two decades. When the Chicago Mercantile Exchange (CME) Center was constructed in the early 1980s, it was designed specifically for CME and its member firms. The saw-tooth design maximised the number of private, corner offices that firms could offer. In an exclusively open outcry marketplace

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Fast forward to today. Not only is electronic trading driving growth at exchanges, FCMs, proprietary trading shops and introducing brokers, but computers are getting smaller, with cooling and electricity needs growing enormously. We recently negotiated a transaction on behalf of an international proprietary trading firm, and after extensive evaluations, a host of buildings were removed from consideration because of their inability to meet the power and cooling demands that our client would require as they grew.

The client is a European-based firm for which one PC and one monitor per person used to be the norm. Now, one person can have upwards of six PCs and 15 monitors in front of them, and the office space and infrastructure need to accommodate 100 people with similar set-ups as the trading operation grows. Imagine how much power this draws, and the need for substantial cooling capabilities to protect not only the equipment but the traders.

Is location everything?

It used to be that location meant everything. Financial services firms usually had elegant offices to convey to their clients that they were doing well and the clients' money could be



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trusted with them. Today, location and luxury are clearly secondary to infrastructure support.

Don't get me wrong. Firms still want attractive space, and landlords will often make upgrades to accommodate a tenant's needs. But in general, individual, corner offices and lavish furnishings have made way for traders convening in close proximity, back-office support functions in cubicles and open work areas, supported by extensive technology, and state-of-the-art data centers with extraordinary infrastructure resources.

In light of the CME and Chicago Board of Trade merger and the continued growth in electronic trading, many firms have been re-evaluating their space needs. We were able to negotiate a very favourable and creative transaction for CME Group that enables the exchange to retain its world-class headquarters in the building while gaining a number of improvements from the landlord, including the creation of a more energy-efficient cooling system to reduce CME's occupancy costs and the conversion of one of the trading floors to

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office space with the addition of windows on that floor.

Whether you're part of an international financial services powerhouse with offices across the world, a global exchange, a mid-sized hedge fund, or a small "prop shop," some of the same principles apply when searching for office space in the age of electronic trading, data centers and high-speed/low-latency demands.

Determine your infrastructure needs. Not just for today, but for where you want to be five, 10 and even 30 years from now, in terms of number of traders, back-office support people, etc. Make sure to consider not just bandwidth and redundancy, but how you're going to cool the equipment and people who make your business work.

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Work with an expert who can help analyse the space available, narrow down the selection, and come up with creative ideas specifically tailored to your needs and growth plans. Keep in mind that, just like in any good trade, the market will determine the price, and depending upon your location, take advantage of favourable deals, powerful concessions and upgrades from landlords.

Here's one you know better than anyone. Hedge. Build in flexibility. If your needs are uncertain after a short time horizon, you may be able to negotiate a favourable short-term lease with an option to extend.

The derivatives industry has grown exponentially in recent years. While the costs of running those businesses that support it have increased, too, the smart, creative use of space can go a long way toward generating the winning trade. ■

Holly Duran Real Estate Partners (HDREP), formerly known as The Levy Organization Real Estate Services, is a global real estate strategy and services firm. Duran has been global real estate advisor to CME Group for more than 25 years and represents more futures-related business than any other real estate broker in Chicago. HDREP, which distinguishes itself by specializing exclusively in the representation of commercial tenants, has a diverse client roster, including McDermott, Will & Emery, the nation's tenth largest law firm; and NovaStar, one of the nation's leading lenders and investors in non-conforming residential mortgage loans. The firm also represents numerous not-for-profit corporations such as the Y-Me National Breast Cancer Organization and the Lupus Foundation of Illinois.